AUG 31 2001

(31)

No. 00-1543

Supreme Court, U.S.
FILED
AUG 31 2001
OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

FESTO CORPORATION,

Petitioner,

v.

SHOKETSU KINZOKU KOGYO KABUSHIKI CO., LTD., A/K/A SMC CORPORATION AND SMC PNEUMATICS, INC.,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR LITTON SYSTEMS, INCORPORATED AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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STATEMENT OF INTEREST OF AMICUS CURIAE

Litton Systems, Incorporated ("Litton") is a high-technology corporation holding a diverse portfolio of patents and other intellectual property rights.[1] Among the industrial

[1] Pursuant to this Court's Rule 37.6, we note that no part of this brief was authored by counsel for any party, and no person or entity other than the amicus curiae filing this brief made a monetary contribution to the preparation or submission of the brief. The brief is filed with the consent of the parties, and copies of the consent letters have been filed with the Clerk.

products Litton manufactures are navigation systems for commercial aircraft. In 1978, Litton inventors developed a pioneering method for producing near-perfectly reflective mirrors for use in ring laser gyroscopes ("RLGs"), instruments used to calculate an aircraft's position and attitude.[2] Litton sought and was granted a patent on its new method in 1979. In 1985, Litton applied to reissue its patent. After the Patent and Trademark Office ("PTO") rejected Litton's application on Section 112 grounds,[3] Litton amended its claims to answer the Section 112 rejection. Its reissue patent issued in 1989.

In 1990, Litton sued its sole competitor, Honeywell, after Honeywell began to manufacture RLG mirrors by unlawfully copying Litton's patent and proprietary information. Litton had previously commanded a substantial portion of global market share, but after Honeywell began copying Litton's mirror-making process, Honeywell cornered a large portion of the market, precluding Litton from profiting from its invention and nullifying its substantial investment. A jury returned a verdict for Litton on its infringement claims and awarded $1.2 billion in compensatory damages. The District Court subsequently granted Honeywell's motion for judgment as a matter of law, but on Litton's appeal, the Federal Circuit reversed the District Court's judgment and reinstated the verdict of infringement by equivalents. *Litton Sys., Inc.*

[2] RLGs emit laser beams in opposite directions around rings of mirrors, measure the difference in time each beam takes to travel around the rings, and plot the measurements on three separate axes. From those measurements, RLGs pinpoint an airplane's attitude, direction, and heading. RLGs are only as good as their mirrors; for the device to work at all, the mirrors must be close to perfectly reflective—orders of magnitude better than conventional mirrors.

[3] *See Litton Sys., Inc.* v. *Honeywell, Inc.*, 238 F.3d 1376, 1380 (Fed. Cir. 2001) ("*Litton III*"). Section 112 requires the inventor to include claims which "particularly point out and distinctly claim the subject matter [he] regards as his invention." *See* 35 U.S.C. § 112.

v. *Honeywell, Inc.*, 87 F.3d 1559 (Fed. Cir. 1996) ("*Litton I*").

Honeywell petitioned this Court for a writ of certiorari. While Honeywell's petition was pending, this Court decided *Warner-Jenkinson Co.* v. *Hilton Davis Chemical Co.*, 520 U.S. 17 (1997), in which it reaffirmed the vitality of the doctrine of equivalents. The petitioner in *Warner-Jenkinson* offered various policy arguments for abrogating the doctrine, but this Court refused to entertain them, stressing that they were more appropriately addressed to Congress—which could "legislate the doctrine of equivalents out of existence any time it chooses." *Id.* at 28. The Court also noted that "chang[ing] so substantially the rules of the game," as petitioner had urged, could "subvert the various balances the PTO sought to strike when issuing the numerous patents which have not yet expired and which would be affected by its decision." *Id.* at 32 n.6.

After *Warner-Jenkinson* issued, this Court granted Honeywell's petition for certiorari, vacated *Litton I*, and remanded for consideration in light of *Warner-Jenkinson*. 520 U.S. 1111 (1997). Back before the Federal Circuit, Honeywell claimed that Litton was completely barred from invoking the doctrine of equivalents, arguing that after *Warner-Jenkinson*, "if a claim amendment has been added for reasons of patentability, prosecution history estoppel automatically bars all equivalents for that element." *Litton Sys., Inc.* v. *Honeywell, Inc.*, 140 F.3d 1449, 1455 (Fed. Cir. 1998) ("*Litton II*"). The Federal Circuit rejected that approach, noting that Honeywell's argument would "bar after-arising equivalents expressly approved by the Supreme Court and bar any equivalents whatsoever to the vast majority of claim limitations amended during patent prosecution." *Id.* The court explained that *Warner-Jenkinson* "did not in fact effect such a sweeping change;" rather, the "entire context of the *Warner-Jenkinson* opinion shows that the Supreme Court approved the PTO's practice of requesting amendments with the

understanding that the doctrine of equivalents would still apply to the amended language." *Id.* Far from creating a new, rigid estoppel rule, *Warner-Jenkinson* "adhered to the long standing doctrine that estoppel only bars recapture of that subject matter actually surrendered during prosecution." *Id.*

The *Litton II* panel concluded, however, that the jury in Litton's case had employed an improper claim construction which may have "propagate[d] into [its] equivalence determination," and that factual questions remained underlying the scope of prosecution history estoppel. *Id.* The court accordingly vacated the jury's verdict on infringement by equivalents and remanded the case to the District Court for, *inter alia*, a determination of the facts underlying the scope of prosecution history estoppel. *Id.* at 1465.

Back in the District Court, Honeywell resubmitted its motions for judgment as a matter of law and for summary judgment. The District Court granted Honeywell's motions, and Litton appealed once again.

After Litton's appeal had been briefed and argued, the Federal Circuit issued its splintered en banc decision in *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000) (reprinted at Pet. App. 1a). The *Festo* majority held that prosecution history estoppel applied whenever a claim was amended "for any reason related to the statutory requirements for a patent," and that if prosecution history estoppel applied to a claim element, "there is *no* range of equivalents available for the amended claim element. Application of the doctrine of equivalents to the claim element is completely barred." *Id.* 9a, 14a (emphasis added).

The consequences of the new *Festo* rule for Litton were immediate and dramatic. On February 5, 2001, the Federal Circuit issued a terse decision affirming judgment for Honeywell on Litton's patent claims—not on the grounds the parties had been litigating, but solely on the strength of the

intervening decision in *Festo*. *Litton Sys., Inc.* v. *Honeywell, Inc.*, 238 F.3d 1376 (Fed. Cir. 2001) ("*Litton III*"). The Federal Circuit noted that Litton had amended a claim term for patentability reasons—specifically, in response to the PTO's rejection of its reissue patent under 35 U.S.C. § 112, ¶2. 238 F.3d at 1380. Accordingly, the Federal Circuit ruled, the Section 112 amendment Litton made to "more particularly point out" its invention, 35 U.S.C. § 112, gave rise to prosecution history estoppel under the new *Festo* rule, completely barring Litton from invoking the doctrine of equivalents. *Id.*

The Federal Circuit acknowledged that it had specifically reaffirmed the "flexible bar" approach to prosecution history estoppel in *Litton II*. *Id.* The court concluded, however, that because it had now adopted a "contrary rule of law regarding the scope of prosecution history estoppel for amended claim limitations, the law of the case doctrine does not preclude us from applying the complete bar adopted en banc in *Festo*." *Id.* Litton was consequently "completely barred as a matter of law from asserting that [Honeywell's] accused devices meet the [amended] limitation under the doctrine of equivalents." *Id.* Thus, the same claims on which a jury had previously found in Litton's favor—and had awarded Litton $1.2 billion in compensatory damages—were reduced to nothing.

Litton filed a petition for certiorari questioning the *Festo* rule and its retroactive application in Litton's case. No. 00-1617 (filed April 23, 2001). That petition is pending.

Even aside from the disappearing $1.2 billion verdict, Litton's circumstances present a particularly compelling case for application of the doctrine of equivalents as it existed before *Festo* rewrote the rule book. Litton challenged two of Honeywell's processes for making RLG mirrors; one such process, the District Court concluded, infringed Litton's patent either literally or "within the *narrowest range of*

equivalents." *Litton Sys., Inc.* v. *Honeywell, Inc.*, 1995 WL 366468, at *45 (C.D. Cal. 1995) (emphasis added). Yet even in a case where the infringing process fell within the "narrowest range" of equivalents, *Festo*'s new estoppel rule still completely barred any recourse to the doctrine—and did so retroactively.

Honeywell was also not some blameless innovator trying to stay on the right side of Litton's patent but uncertain of its bounds. Honeywell knew precisely what it was doing when it modeled its process on Litton's. Its own documents acknowledge that it would face a "large lawsuit!" if it appropriated Litton's proprietary information, but it nonetheless induced a Litton consultant to share that information, promising to indemnify him for legal costs and damages after he expressed the fear that what Honeywell had in mind would infringe Litton's patent rights. *Litton I*, 87 F.3d at 1573. All these facts and more amply supported the jury's finding that Honeywell had willfully infringed Litton's patent. *See id.* at 1573-74. But because *Festo* cut off all recourse to the doctrine of equivalents for amended claims, Honeywell can now escape liability for its calculated decision to copy Litton's process with only the most insignificant alterations.

Litton accordingly has a compelling interest in this Court's disposition of the *Festo* case. Litton appreciates that the parties and numerous other amici will fully brief the pertinent issues of patent law. Litton's participation as amicus will instead focus on the legal implications of the adoption of the new *Festo* rule for those who—like Litton—had valuable property rights taken from them as a result of the Federal Circuit's change in "the rules of the game." *Warner-Jenkinson*, 520 U.S. at 32 n.6.[4]

[4] We recognize that this Court "do[es] not ordinarily address issues only raised by amici." *Kamen* v. *Kemper Fin. Servs., Inc.*, 500 U.S. 90, 97 n.4 (1991). Here, however, the new rule's impact on settled property rights and the impropriety of its retrospective application were raised repeatedly by the dissenters below, *see*, e.g., Pet. App. 110a-111a (Michel, J., dissenting), *id.* 148a, 155a (Newman, J., dissenting), and were implicitly rejected by the majority. *See Lebron* v. *National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) ("Our practice 'permit[s] review of an issue not pressed so long as it has been passed upon.' ") (quoting *United States* v. *Williams*, 504 U.S. 36, 41 (1992)). And in any event, the constitutional and equitable issues we address simply underscore the fundamental unfairness of the *Festo* decision—an issue central to petitioner's arguments below and in this Court.

SUMMARY OF ARGUMENT

The doctrine of equivalents is a fundamental principle of patent law. Developed a century and a half ago, the doctrine was designed to protect a patentee against unscrupulous copyists who follow a patent's claims almost—but not quite—to the letter. *See Winans* v. *Denmead*, 56 U.S. (15 How.) 330, 343 (1854) ("The exclusive right to the thing patented is not secured, if the public are at liberty to make substantial copies of it, varying its form or proportions."). A hundred years after *Winans*, this Court reaffirmed the doctrine in *Graver Tank & Mfg. Co.* v. *Linde Air Prods. Co.*, 339 U.S. 605, 607 (1950), explaining that the "essence of the doctrine is that one may not practice fraud on a patent," and that to prohibit nothing other than "[o]utright and forthright duplication" would "foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system." This Court again reaffirmed the doctrine in *Warner-Jenkinson*, 520 U.S. 17, in which the petitioner had asked the Court to hold that application of the doctrine was completely barred whenever a patentee amended his claims to surrender subject matter, whatever the reason for the amendment. Citing the doctrine's long history, this Court refused "[t]o change so substantially the rules of the game now." *Id.* at 32 & n.6.

In *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, however, the en banc Federal Circuit retroactively changed the rules of the game in emphatic fashion. Relying almost

exclusively on the perceived policy need for more definite notice in patent claims, at the expense of established precedent and competing policy considerations, the *Festo* majority—over four separate dissents—declared that claims amended to meet any statutory requirement relating to patentability completely barred the patentee from invoking the doctrine of equivalents as to the amended claim. A panel of the Federal Circuit subsequently applied *Festo* to Litton, holding that Litton—which had previously obtained a billion-dollar jury verdict on its patent claims—was completely barred from arguing that its competitor Honeywell had infringed its patent by equivalents.

The decision in *Festo* divested thousands of patent holders like Litton of long-held property rights and amounts to an unconstitutional taking. Inventors sought patents—and the PTO granted them—knowing that under settled Supreme Court and Federal Circuit precedent, if claim terms were amended, as commonly occurs during prosecution, only subject matter actually surrendered by amendment would be off-limits in a subsequent action for infringement by equivalents. Patentees thus understood that the property for which they had bargained—their patents—included more than the field encircled by the literal terms of the patent; holders also had a right, before *Festo*, to protect their patent from infringement by products that departed from their invention in insubstantial ways. Based on that understanding, and on their corresponding assessment of their patents' value, patentees also entered into relationships with licensees that took into account the entire field of their patent rights.

The *Festo* majority's sudden departure from this settled line of precedent retroactively changed the terms of the bargains struck by patent holders with the PTO by effectively reducing the scope of their patents to their literal terms. After the Federal Circuit's decision, patentees who had amended their claims for patentability reasons were stripped of the

value of their patents, and their carefully negotiated license agreements were rendered valueless.

Such an action—if undertaken by the legislative or executive branch—would plainly constitute a taking of private property without just compensation in violation of the Fifth Amendment's Takings Clause. The *Festo* majority's forced reallocation of property rights should be treated just the same. The *Festo* majority self-consciously acted as a legislative policymaking body in crafting its new rule, and it should be bound by the same constitutional constraint.

Even if this Court is inclined to affirm *Festo* on the merits, moreover, it should avoid the serious constitutional question presented by the retroactive divestment of settled patent rights and hold that the decision should apply prospectively only. The *Festo* decision readily satisfies the three-factor test for prospective application announced in *Chevron Oil Co.* v. *Huson*, 404 U.S. 97 (1971). The Federal Circuit's decision was a sudden and unpredictable departure from prior Federal Circuit precedents; purely prospective application of the new rule would not defeat—and in fact would enhance—its announced purpose; and retrospective application of the rule would have unduly harsh consequences for those who sought, amended, and received their patents before *Festo*'s radical new edict. Prospective application is the norm for a new legislative rule, and that—in its provenance, scope, and impact—is what the *Festo* majority has announced.

ARGUMENT

I. THE DECISION BELOW RAISES GRAVE CONSTITUTIONAL CONCERNS UNDER THE TAKINGS CLAUSE.

It has "long been settled" "[t]hat a patent is property, protected against appropriation both by individuals and by government." *Hartford-Empire Co.* v. *United States*, 323

U.S. 386, 415 (1945) (citing cases); *see Union Paper-Bag Mach. Co.* v. *Murphy*, 97 U.S. 120, 121 (1877) ("[r]ights secured to an inventor by letters-patent are property"); 35 U.S.C. § 261 ("patents shall have the attributes of personal property"). Over a hundred years ago, the Court specifically declared that "the right of the patentee * * * [i]s secured, as against the government, by the constitutional guaranty which prohibits the taking of private property for public use without compensation." *Hollister* v. *Benedict & Burnham Mfg. Co.*, 113 U.S. 59, 67 (1885); *see William Cramp & Sons Ship & Engine Bldg. Co.* v. *International Curtis Marine Turbine Co.*, 246 U.S. 28, 39-40 (1918) ("rights secured under [a] * * * patent" are "property and protected by the guarantees of the Constitution and not subject therefore to be appropriated even for public use without adequate compensation").

As this Court observed in *Kaiser Aetna* v. *United States*, 444 U.S. 164, 176 (1979), the "right to exclude" is "one of the most essential sticks in the bundle of rights that are commonly characterized as property." The very "essence of the patent privilege" is the "right to exclude everyone from making * * * the thing patented, without the permission of the patentee" during the term of the patent. *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549 (1852); *see Transparent Wrap Mach. Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 643 (1947); 35 U.S.C. §§ 154(a)(1), 271(a). That, after all, is part of the "carefully crafted bargain" of the patent system: a patent holder is entitled to exclusive use of his idea for a period of years, in exchange for making that idea public and conferring on the public the right to practice the invention at the end of the period of exclusive use. *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-151 (1989).

The bargain created by the patent statutes is renewed each time a patent is granted, because every patent is a "contract between the government and the patentee." *Photo Elecs. Corp.* v. *England*, 581 F.2d 772, 776 (9th Cir. 1978). When

an inventor submits a patent application to the PTO, he negotiates with that Office the scope of his patent protections and thus the terms of his bargain with the government. That process of negotiation is a meticulous back-and-forth, and applications are commonly—in some fields, almost always—amended during patent prosecution. *See Hughes Aircraft Co.* v. *United States*, 717 F.2d 1351, 1363 (Fed. Cir. 1983) ("Amendment of claims is a common practice in prosecution of patent applications"); Pet. App. 148a n.21 (Newman, J., dissenting) ("For complex inventions the percentage of unamended applications is vanishingly small.").

At the end of the process—the PTO having sought various clarifications, concessions, and amendments from the putative patent holder—the bargain is struck, and a patent issues. For decades, that contract has been understood by all involved—including those at the PTO, *see Warner-Jenkinson*, 520 U.S. at 32 n.6—to include something more than the literal terms of the patent. *See Graver Tank*, 339 U.S. at 607. As the Federal Circuit explained countless times before *Festo*, a patentee was entitled to claim not only literal infringement but infringement by equivalents as well, so long as he did not recapture through his equivalents claim any subject matter expressly surrendered during prosecution. *See* Pet. App. 97a-103a (Michel, J., dissenting) (citing fifty-two cases articulating this principle). Accordingly, before *Festo*, patent holders—the vast majority of whom had amended claims during prosecution—possessed enforceable property rights in their inventions extending to a field outside the literal claim language, but insubstantially different from it, *provided that* they had not specifically disclaimed such subject matter during prosecution.

Those rights do not exist any more. *Festo* erased them by whittling back to their literal terms the scope of patent claims amended for patentability reasons. As the dissenters noted

below, the new rule has the most pernicious impact on the holders of "most of the 1,200,000 patents that are unexpired and enforceable," because it substantially reduced the "effective scope, and thus, the value," of those patents, disrupting innumerable existing commercial relationships. Pet. App. 110a (Michel, J., dissenting). Put another way, when the *Festo* majority changed the terms of the thousands of careful bargains patent holders had struck with the government years before, it eradicated part of the consideration for those bargains. *See Richmond Screw Anchor Co.* v. *United States*, 275 U.S. 331, 345 (1928) (elimination of infringement action "would seem to raise a serious question * * * under the Fifth Amendment").

Festo directs that the thousands of patentees who amended their claims during prosecution in reliance on settled patent law will receive virtually no value from their patents, thwarting their expectations that they would be able to protect their patent, and insubstantial changes thereto, from "unscrupulous copyist[s]." *Graver Tank*, 339 U.S. at 607. The patentees' expectations that they would receive value from their patents were reasonable –the doctrine of equivalents was alive and well for a century and a half before *Festo*—and they were investment-backed: those patentees poured innumerable resources into securing the patents now subject to only literal infringement analysis, and they negotiated countless license arrangements operating on the assumption that their patents were worth something more than next to nothing. *See Penn Central Transp. Co.* v. *New York City*, 438 U.S. 104, 124 (1978) (extent to which governmental action interferes with "investment-backed expectations" is relevant consideration in takings analysis).

That the taking was accomplished in this instance by a court rather than Congress makes it no less an affront to the Fifth Amendment. *See, e.g., Webb's Fabulous Pharmacies, Inc.* v. *Beckwith*, 449 U.S. 155, 164 (1980) ("Neither the Florida legislature by statute, nor the Florida courts by

judicial decree, may accomplish [a taking] simply by recharacterizing" private property as a public asset); *Hughes* v. *Washington*, 389 U.S. 290, 298 (1967) (Stewart, J., concurring) ("[T]he Due Process Clause of the Fourteenth Amendment forbids * * * confiscation by a State, no less through its courts than through its legislature"); Barton H. Thompson, Jr., *Judicial Takings*, 76 Va. L. Rev. 1449, 1500 (1990). While a court's incremental changes in law may not often implicate the Constitution, *see Patterson* v. *Colorado*, 205 U.S. 454, 461 (1907), when a court departs in an "utterly unpredictable" way from prior precedent, Pet. App. 110a (Michel, J., dissenting), destroying long-held property rights and expectations, the Takings Clause is directly put at issue.

Justice Stewart made exactly this point in his concurring opinion in *Hughes*, 389 U.S. at 294-298. That case involved the question of ownership of accreted shorelands—land deposited over time by the ocean—adjoining the petitioner's beachfront property. The Supreme Court of Washington applied state law and concluded that the accretion belonged to the State; this Court reversed, concluding that the issue was one of federal law and that under federal law, the accretion belonged to Hughes. *Id.* at 293. Concurring, Justice Stewart observed that the state supreme court had held twenty years earlier that accretions belonged to the owner of the adjoining land—not the State—and that the court's abrupt departure from its earlier precedent implicated the Takings Clause:

> To the extent that the decision of the Supreme Court of Washington * * * arguably conforms to reasonable expectations, we must of course accept it as conclusive. *But to the extent that it constitutes a sudden change in state law, unpredictable in terms of the relevant precedents, no such deference would be appropriate.* For a State cannot be permitted to defeat the constitutional prohibition against taking property without due process of law by the simple device of asserting retroactively that the property

it has taken never existed at all. [*Id.* at 296-297 (emphasis added).]

Justice Stewart further explained that while the state supreme court "[o]f course * * * did not conceive of this action as a taking" when it departed from its earlier precedent, the "Constitution measures a taking of property not by what a State says, or by what it intends, but by what it *does*." *Id.* at 298 (emphasis in original). *See also Muhlker* v. *New York & Harlem R.R.*, 197 U.S. 544, 570 (1905) (power of state courts to "declare rules of property or change or modify their decisions" may not be "exercised to take away rights which have been acquired by contract and have come under the protection of the Constitution of the United States"). These principles should apply with equal force to decisions of federal courts, just as the Takings Clause applies equally to the federal and state governments. *See* Thompson, 76 Va. L. Rev. at 1513.

This Court, and its individual members, have often acknowledged the force of Justice Stewart's approach. *See, e.g.*, *Stevens* v. *City of Cannon Beach*, 510 U.S. 1207, 1211-12 (1994) (Scalia and O'Connor, JJ., dissenting from denial of certiorari); *Lucas* v. *South Carolina Coastal Council*, 505 U.S. 1003, 1030 (1992); *First English Evangelical Lutheran Church* v. *County of Los Angeles*, 482 U.S. 304, 334 n.11 (1987) (Stevens, J., dissenting); *Bonelli Cattle Co.* v. *Arizona*, 414 U.S. 313, 331 (1973), *overruled on other grounds by Oregon* v. *Corvallis Sand & Gravel Co.*, 429 U.S. 363 (1977) (all citing with approval Justice Stewart's concurrence in *Hughes*). The lower courts have followed Justice Stewart's lead as well. *See, e.g.*, *Cherry* v. *Steiner*, 716 F.2d 687, 692 (9th Cir. 1983) (citing *Hughes* concurrence and concluding that decision in question was not a "startling and unpredictable change" from prior precedent and thus did not implicate the Takings Clause), *cert. denied*, 466 U.S. 931 (1984); *Ultimate Sportsbar, Inc.* v. *United States*, 48 Fed. Cl. 540, 550 (Fed. Cl. 2001) ("A judicial taking occurs where a

court's decision that does not even 'arguably conform[] to reasonable expectations' in terms of relevant law of property rights effects a 'retroactive transformation of private into public property' ") (quoting *Hughes*, 389 U.S. at 297 (Stewart, J., concurring)); *Sotomura* v. *County of Hawaii*, 460 F. Supp. 473, 481, 482-483 (D. Haw. 1978) (citing *Hughes* concurrence and holding that "[t]he Hawaii Supreme Court's retroactive application [of standards setting boundary of property at vegetation line, rather than high water mark], was so radical a departure from prior state law as to constitute a taking of the Owners' property by the State of Hawaii without just compensation").

Justice Stewart's concurring statement applies by its terms to exactly these circumstances. The Federal Circuit's "utterly unpredictable" decision, Pet. App. 110a (Michel, J., dissenting), all but eliminated recourse to the doctrine of equivalents, demolishing the property interests of thousands of patent holders. And as even the majority recognized, its holding was a substantial change of course from its approach in cases decided as recently as three months before *Festo* and dating back to the creation of the Federal Circuit. *See* Pet. App. 25a ("In reaching our holding, we are mindful of the Supreme Court's teaching that binding precedent is not to be lightly discarded."); *id.* 97a-103a (Michel, J., dissenting) (listing over fifty prior cases overruled by *Festo*, dating from 1983 to August 2000). The Federal Circuit's sudden departure from its prior precedent, so completely "unpredictable in terms of the relevant precedents," *Hughes*, 389 U.S. at 296 (Stewart, J., concurring), divested patent holders of their settled property rights, rendered their license arrangements practically valueless, and worked a taking of patent holders' property for public use.

Festo's unconstitutional impact is readily apparent in Litton's case. Seven years before *Festo* issued, Litton tried its infringement claims to a jury. The jury found Honeywell to have willfully infringed Litton's patent by equivalents,

awarding Litton $1.2 billion in compensatory damages. That $1.2 billion is no more after *Festo*; it has gone the way of Litton's patent rights. Instead, Honeywell—clearly on notice that it was treading on Litton's patent and proprietary rights, *Litton I*, 87 F.3d at 1573—has been accorded the privilege of copying every element of Litton's patented mirror-coating process by merely changing an insubstantial detail. Litton's loss is what *Festo* has wrought, in concrete terms. *See* Kevin A. Wolff, *et al.*, *The Unspoken Loss In Shareholder Value: Patent Rights Take A Hit*, Vol. 8, No. 21 Mealey's Litigation Reports: Patents 26, 31 (Apr. 2, 2001) (noting that "the value of Litton's patent * * * drop[ped] to nothing" after *Festo*).

We recognize, of course, that while this Court has not definitively rejected the proposition that the Takings Clause can apply to judicial decisions, it has also yet to find that such a decision violated the Clause.[5] The issue rarely surfaces, which is understandable; the Clause is not implicated when courts merely apply settled law to the facts, and rarely comes into play even when courts reinterpret the law. *See Patterson*, 205 U.S. at 461 (noting that "in general, the decision of a court upon a question of law, however wrong and however contrary to previous decisions, is not an infraction of the Fourteenth Amendment merely because it is wrong or because earlier decisions are reversed"—but that "[e]xceptions have been held to exist"). Put another way, the

[5] *But cf.* Thompson, 76 Va. L. Rev. at 1469-70 (analyzing *PruneYard Shopping Center* v. *Robins*, 447 U.S. 74 (1980), as applying conventional takings analysis to a judicial takings case). In *Rogers* v. *Tennessee*, 121 S. Ct. 1693 (2001), this Court acknowledged that the Constitution restricts a court's ability to change a common law rule and apply the new rule retroactively. *Rogers* explained that judicial abrogation of a common-law criminal rule, if "unexpected and indefensible by reference to the law which had been expressed prior to the conduct in issue," violated the Due Process Clause. *Id.* at 1700 (quotation omitted).

Takings Clause hardly ever comes into play when a court acts like a court.

Here, however, the *Festo* majority quite self-consciously acted like a legislative or rulemaking body—or as one court has put it, "a substantive policymaker, a court with a mission"[6]—when it jettisoned its settled "flexible bar" estoppel principle and crafted a new rule to take its place. To begin with, the court sua sponte posed five broad questions for the parties to address on rehearing en banc, as if the procedure were akin to notice-and-comment rulemaking. *See* Pet. App. 2a-3a. In answering those questions, the majority invoked "its special expertise" and "role as the sole court of appeals for patent matters," *id.* 19a, 24a, *see also id.* 66a (Lourie, J., concurring) ("Our court was created with the opportunity and mandate to observe such problems and to act upon a possible solution."), suggesting that the majority conceived its charter as somewhat broader than the constitutional one of deciding the case before it. *Cf. Marbury* v. *Madison*, 5 U.S. (1 Cranch) 137 (1803). The majority rather blithely dismissed applicable Supreme Court precedent as insufficiently "explicit and carefully considered," Pet. App. 18a—apparently adopting the notion, as one concurring judge put it, that this Court would not "wish[ ] to stand in the way of a sensible solution" to the problem the majority perceived. *Id.* 62a (Plager, J., concurring). It just as cavalierly rejected its own compelling body of precedent, *see id.* 97a-103a (Michel, J., dissenting), engaging instead in a remarkably candid weighing of policy alternatives. *Id.* 24a-30a.

Indeed, *Festo*'s new rule is predicated on the majority's conclusion that one aspect of patent policy—the "notice function" of the patent laws—was of "paramount" importance compared to other countervailing policies—such as the need, expressed in 150 years of Supreme Court precedent, to

[6] *Control Resources, Inc.* v. *Delta Elecs., Inc.*, 133 F. Supp. 2d 121, 123 (D. Mass. 2001).

give a patentee "meaningful protection" from infringers. *Id.* 24a (majority), 70a (Michel, J., dissenting). As Judge Newman explained in dissent, the majority chose to effect "a change in industrial policy," "legislat[ing] a new balance between inventor and imitator." *Id.* 154a, 149a. Rather than applying its expertise to formulate a balanced "test for equivalence in the orderly course of case-by-case determinations," *Warner-Jenkinson*, 520 U.S. at 40—the way courts proceed—the *Festo* majority instead made a sweeping policy pronouncement of the sort this Court found was best left to Congress. *Id.* at 28.[7] When it chose to act as a legislative, policymaking body, the *Festo* majority forfeited whatever claim it had not to be bound by the Takings Clause.

II. THE DECISION BELOW, IF AFFIRMED, SHOULD APPLY PROSPECTIVELY ONLY.

If this Court affirms *Festo*, it should avoid the intractable constitutional problem presented by the Federal Circuit's decision and hold that *Festo* should apply prospectively only. *See* Thompson, 76 Va. L. Rev. at 1500. Indeed, the *Warner-Jenkinson* Court recognized that a rigid estoppel rule, if retroactively applied, would subvert patentees' rights and expectations when it stressed the importance of maintaining the established "rules of the game" for the benefit of those already on the playing field.

The petitioner in *Warner-Jenkinson* had pressed for a rule announcing a strict application of prosecution history estoppel, such that any claim amendment, regardless of the reason, gave rise to estoppel. *See* 520 U.S. at 30. This Court rejected that approach, noting that case law had consistently probed

[7] To compound the problem further, the Federal Circuit changed the rules in an area where participants' property rights are particularly concrete—and where the government takes an overt role in the process of establishing those rights. Especially in these circumstances, a policy-driven overturning of settled doctrine constitutes a taking.

the reasons behind the surrender of subject matter during prosecution and finding "no substantial cause for requiring a more rigid rule invoking an estoppel regardless of the reasons for the change:"

> That petitioner's rule might provide a brighter line for determining whether a patentee is estopped under certain circumstances is not a sufficient reason for adopting such a rule. This is especially true where, as here, the PTO may have relied upon a flexible rule of estoppel when deciding whether to ask for a change in the first place. To change so substantially the rules of the game now could very well subvert the various balances the PTO sought to strike when issuing the numerous patents which have not yet expired and which would be affected by our decision. [*Id.* at 32 n.6.]

Although it declined to create a hard-line rule against prosecution history estoppel in all cases where a claim was amended during prosecution, this Court held that with respect to the narrow category of *unexplained* claim amendments, a rebuttable presumption arose that the amendment was made for a substantial reason related to patentability. *Id.* at 32. If that presumption were not overcome, "prosecution history estoppel would bar the application of the doctrine of equivalents as to that element." *Id.*

Justice Ginsburg, joined by Justice Kennedy, added an additional "cautionary note" in her concurrence, concerning application of the rebuttable presumption in cases "in which patent prosecution has already been completed." *Id.* at 41. Justice Ginsburg observed that "wooden[ ]" application of the presumption "might in some instances unfairly discount the expectations of a patentee who had no notice at the time of patent prosecution that such a presumption would apply," and who would have had "little incentive" at the time of patent prosecution to create a record in the file wrapper to satisfy this later-arising clarification. *Id.* Justice Ginsburg

noted that the Court's opinion was "sensitive to this problem," *id.* (quoting opinion of the Court, 520 U.S. at 32 n.6), and encouraged the Federal Circuit on remand to consider whether the patent holder in that case had offered reasons—or could now establish such reasons—for its amendment, "bearing in mind the prior absence of clear rules of the game." *Id.* at 42.

The *Festo* majority, however, concluded without discussion that it would retroactively apply its new estoppel rule—one that sweeps far more broadly, and does far more damage, than *Warner-Jenkinson*'s carefully circumscribed rebuttable presumption. That irony was not lost on the dissenting judges. *See* Pet. App. 148a (majority ignored *Warner-Jenkinson*'s "warnings against derogation of vested rights and expectancies, and has declined to make this decision applicable only prospectively") (Newman, J., dissenting); *id.* 110a ("Today's ruling offers no 'grandfathering' provision for the vast numbers of unexpired patents that contain amended claim limitations, and thus that will become increasingly susceptible to copying under today's new rule.") (Michel, J., dissenting). Even if this Court affirms *Festo*, it should hold that the new rule should apply prospectively only, to patent applications submitted after *Festo* issued. Otherwise the Court will be imposing on patentees a bargain far different from that into which they entered when they disclosed the details of their inventions.

In *Chevron Oil Co.* v. *Huson*, 404 U.S. 97 (1971), this Court laid out a three-part test for examining whether a new rule of law should be applied prospectively:

> *First*, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied, or by deciding an issue of first impression whose resolution was not clearly foreshadowed. *Second*, * * * we must * * * look[] to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation. *Finally*, we have weighed the inequity imposed by retroactive application, for where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the injustice or hardship by a holding of nonretroactivity. [*Id.* at 106-107 (quotations omitted and emphasis added).]

See also American Trucking Ass'ns, Inc. v. *Smith*, 496 U.S. 167, 179-183 (1990) (plurality) (applying *Chevron* test and concluding that decision in *American Trucking Ass'ns, Inc.* v. *Scheiner*, 483 U.S. 266 (1987), would not apply retroactively in the case before it).

This Court narrowed *Chevron*'s holding somewhat in *Harper* v. *Virginia Department of Taxation*, 509 U.S. 86, 90 (1993), which held that "this Court's application of a rule of federal law to the parties before the Court requires every court to give retroactive effect to that decision." *Harper* leaves open the question here, which is when it may be proper for the *first* case to announce a new rule to apply that rule prospectively only. *See James B. Beam Distilling Co.* v. *Georgia*, 501 U.S. 529, 544 (1991) (opinion of Souter, J.) (distinguishing between "pure prospectivity" and "selective" prospectivity); *Harper*, 509 U.S. at 97; *cf. Reynoldsville Casket Co.* v. *Hyde*, 514 U.S. 749, 761-763 (1995) (Kennedy, J., concurring). That question is still controlled by *Chevron*, and application of *Chevron*'s three-step test indicates that *Festo* should be applied prospectively only.

Festo clearly satisfies the first *Chevron* test of nonretroactivity, as even the judges in the majority seemed to appreciate. The majority's new, sweeping principle of law—a patentee who amended a claim for any reason related to patentability is barred from recourse to the doctrine of equivalents as to that element—undercut Supreme Court precedent dating to the mid-nineteenth century and overruled

a slew of precedent dating from the earliest days of the Federal Circuit to decisions announced just prior to *Festo*. *See Harper*, 509 U.S. at 112 (Kennedy, J., concurring) (applying *Chevron* and asking whether decision in question represented an "avulsive change which caused the current of the law thereafter to flow between new banks") (quotation omitted). The *Festo* majority took pains, in fact, to explain that in its view, the principle applied in the fifty-odd decisions overruled by *Festo* had become "unworkable"—standard argot when the doctrine of *stare decisis* is declared to be overcome in a particular case. *See* Pet. App. 25a.[8]

The second part of *Chevron* is easily satisfied as well. The "purpose and effect" of the new *Festo* rule, *Chevron*, 404 U.S. at 107 (internal quotation omitted), as the majority saw it, was to further the "notice function" of patents by providing the public with a clear view of the scope of patent protection. *See* Pet. App. 24a-25a. But the majority's stated purpose can best be furthered, and the "notice function" satisfied, by prospective application of the new rule. As the *Festo* majority put it, prosecution history estoppel embodies the notion that "the patentee, during prosecution, has created a record that fairly notifies the public that the patentee has surrendered the right to claim particular matter as within the reach of the patent." *Id.* 6a. But patentees who received their patents under the prior regime of course had no opportunity before the PTO to create the record *Festo* now requires, and thus were not able to frame their patents to maximize their own protections in light of the newly-elevated notice function and the newly-stringent estoppel rule. *See*

[8] The *Festo* majority also claimed that its holding was based on a second "line" of precedent consisting of two cases from 1984 which ostensibly supported its new rule. *See id.* 20a; *but see id.* 93a (Michel, J., dissenting) (explaining that the two cases employing "rigid bar" in fact followed "flexible estoppel" doctrine overruled by *Festo*). Those two cases, which at best debatably support the majority's position, are a meager fig leaf that cannot alter the conclusion that *Chevron*'s first test is plainly met.

id. 113a (Linn, J., dissenting) (rigid estoppel principle changed the "rules under which prosecution strategies were formulated for thousands of extant patents no longer subject to correction").

Construing the new rule to apply retroactively furthers the "notice" function in only one undesirable way: it encourages potential infringers to take advantage of the newly "paramount" notice function of patent claims, *id.* 24a, by poring over extant patents, looking for claims amended for patentability reasons (or for no discernible reason), and making insubstantial changes to those claims. *See id.* 126a (Linn, J., dissenting) ("[T]he majority's new rule hands the unscrupulous copyist a free ride on potentially valuable patented technology, as long as the copyist merely follows the prosecution history road map and makes a change, no matter how trivial or insubstantial, to an element otherwise covered by * * * a narrowed claim limitation").

Finally, it would be inequitable to apply *Festo* retroactively to patent holders who relied on the long-settled "flexible bar" in prosecuting their patents before the PTO. *See American Trucking Ass'ns* v. *Smith*, 496 U.S. at 185 ("In determining whether a decision should be applied retroactively, this Court has consistently given great weight to the reliance interests of all parties affected by changes in the law.") (citing *Cipriano* v. *City of Houma*, 395 U.S. 701, 706 (1969)). Before *Festo*, an inventor sought a patent from the PTO with the understanding that if he chose to amend his claims for patentability reasons, he could still make later use of the doctrine of equivalents to defend against an infringer—as long as he did not recapture in the process the prior art he had surrendered by amendment. That mutual understanding rested not only on the raft of settled Federal Circuit precedent applying the "flexible bar" rule, but on a comparable host of Supreme Court precedent dating back a century and a half to *Winans*, which first articulated the doctrine. *See* Pet. App. 74a-91a (Michel, J., dissenting, citing cases). But that is no longer

the law. After *Festo*, claims amended for any reason relating to patentability—five, ten, or fifteen years ago—are now ripe for the picking; all but the dullest infringer will design around those amended claims, knowing that the patent holder is powerless to use the doctrine of equivalents to keep blatant infringement in check. Applying *Festo* to those patent holders would produce the "harsh and disruptive effect" of rendering their patent rights—and their related license agreements—useless and valueless. *American Trucking Ass'ns* v. *Smith*, 496 U.S. at 191.

Chevron prospectivity may not be available when a court announces a new interpretation of the Constitution, because the court's new reading of the law is presumed always to have been the law. *See American Trucking Ass'ns* v. *Smith*, 496 U.S. at 201 (Scalia, J., concurring in judgment) ("To hold a governmental act to be unconstitutional is not to announce that *we* forbid it, but that the *Constitution* forbids it; * * * the notion that our interpretation of the Constitution in a particular decision could take prospective form does not make sense"). The issue here is quite different. The *Festo* majority's new rule was not compelled by the dictates of the Constitution or by the terms of a statute; the court simply discarded the old rule and adopted a new one after weighing policy issues and deciding to "legislate[] a new balance between inventor and imitator." Pet. App. 149a (Newman, J., dissenting). Again, the election to engage in such legislative activity suggests that the legislative model—including the norm that legislation operates prospectively only, *see, e.g.*, *Landgraf* v. *USI Film Prods.*, 511 U.S. 244, 265-266 (1994)—should apply to the court's action. *See also Rogers*, 121 S. Ct. at 1705 (Scalia, J., dissenting) ("retroactive revision of a concededly valid legal rule is extremely rare").

In any event, that the *Chevron* test is so clearly satisfied here—coupled with the fact that *Festo* bears all the characteristics of an unconstitutional taking—at least highlights the

fundamental unfairness of the new rule crafted by the *Festo* majority. As we have explained, the inventors who sought and received patents prior to *Festo* have already fixed the terms of their bargains. They cannot renegotiate them now, nor can they make their patents' claims more clear; and it behooves no one—not the PTO, not the patent holder, and not the public—to force patentees to accept the substantially altered terms of the new bargain offered by the *Festo* majority.

CONCLUSION

For the foregoing reasons, the judgment below should be reversed.

Respectfully submitted,

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